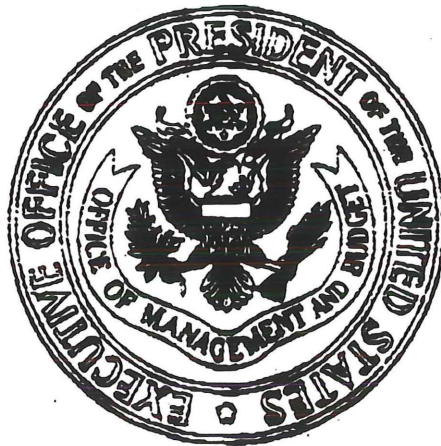


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# APPENDIX



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BUDGET OF THE UNITED STATES GOVERNMENT

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*Fiscal Year 1998*

## ~~CONFIDENTIAL~~

The Governments of Canada and the United States concluded an agreement in October 1996, in which the U.S. agreed to make an ex gratia settlement of \$100 million for environmental cleanup work on several former U.S. installations in Canada, subject to obtaining specific legislative authority from Congress. The U.S. has closed and withdrawn from four military installations: 21 Dew (Defense Early Warning) Line sites; the U.S. naval facility at Argentia; a section of the Canadian Forces Base at Goose Bay, Labrador; and the Haines-Fairbanks pipeline. It is the view of the United States that there is no legal obligation under current U.S. and international law to reimburse the costs of environmental cleanup at these former military installations. However, the remediation in question concerns work that would ordinarily have been conducted by U.S. forces at these installations in Canada prior to their closure. The Department of Defense believes the ex gratia payment is justified as an appropriate adjustment in order to pay for cleanup that should have been conducted by U.S. forces when the installations were closed.

\* [ The October 1996 agreement was reached through negotiations ending in an Exchange of Notes between the Governments of Canada and the United States. The Canadians initially requested approximately \$500 million (U.S.), which was reduced through the negotiation process. In the Exchange of Notes, the U.S. Government agreed to make a \$100 million settlement in constant FY 1996 dollars (U.S.) "subject to the obtaining of specific legislative authority from the United States Congress." The Exchange of Notes further specifies that it would be the United States Government's intent to place funds equalling this amount in the Canadian Foreign Military Sales (FMS) Trust Account over a ten year period commencing in FY 1998. The Canadian Government could then draw against this account to procure the defense articles and services they desire. The transfer of funds into the Canadian FMS Trust Account would have an economic benefit of generating future sales of U.S. made material to Canada.

The Canadian reply Note makes clear that the U.S. proposal "is acceptable" and states the understanding of the Canadian Government that "the specific legislative authority, i.e. authorizations and appropriations, to which the United States' ex gratia settlement is subject shall be a matter for decision by the United States Congress." It also states the understanding that "payment in full of the ex gratia settlement shall constitute a full and final settlement of all claims for costs of environmental cleanup at the four installations described."